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FARMERS' NEWSLETTER

Livestock

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July 79/L-11

Hog Profits Fade

After about 2 years of good returns, hog producers now face leaner times.

Feed costs are rising just as hog prices are falling. The hog market decline follows sharply increased output. Farrowings increased 16 percent over a year earlier during December-February and 22 percent during March-May.

Biggest Inventory In 8 Years

The June inventory of hogs and pigs was the largest since 1971. There were an estimated 64.9 million head on U.S. farms, up 18 percent from June 1978.

Iowa and Illinois remained the two largest hog producing States, with inventory increases of 13 and 11 percent, respectively.

But the sharpest gains occurred elsewhere. Georgia registered the biggest increase, up 37 percent. Other major hog States reporting big surges: Kentucky 27 percent, Nebraska 25 percent, Minnesota 23 percent, Indiana 22 percent, and Missouri 21 percent.

Slaughter To Stay Large

Hog slaughter for the rest of this year will be drawn from the June inventory. This means slaughter in the last 6 months of 1979 will run nearly 20 percent above a year

MARKET HOG PRICES WEAKEN

Month	1977	1978	1979
\$ per cwt., 7 mths.			
January	39.52	45.99	52.13
February	40.18	48.83	54.42
March	37.53	47.50	49.38
April	36.97	46.04	45.04
May	41.79	49.17	43.79
June	43.86	48.31	40.29
July	45.76	46.78	
August	44.38	48.77	
September	41.40	50.00	
October	40.83	52.23	
November	39.33	48.36	
December	43.99	49.57	

¹Estimated.

ago, the largest since second-half 1971.

As a result, hog prices may remain in the low \$40's during July-September, then move to the upper \$30's during October-December.

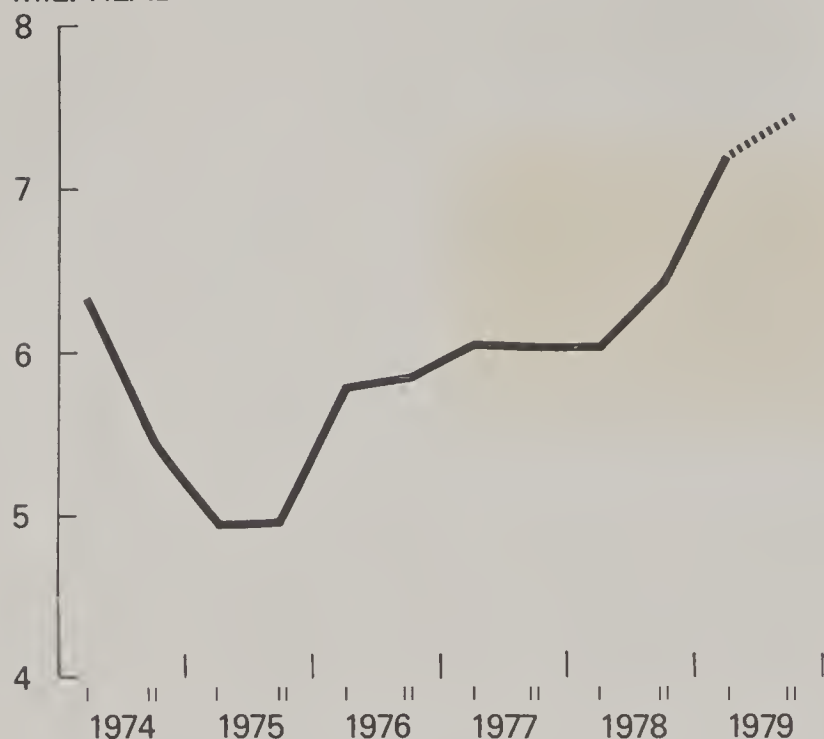
On June 1, farmers in the 14 major hog producing States said they planned to increase June-August farrowings by 17 percent from a year earlier. Actual farrowings will probably be close to these intentions, since sows expected to farrow during this period had been bred before the survey was taken.

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SOW FARROWINGS UP SHARPLY

MIL. HEAD



..... Intentions. I = December through May. II = June through November.

Farrowing intentions for September-November were for a 14-percent increase from a year earlier, but these intentions are less likely to be met. There's still time to adjust plans and you may want to reconsider any planned production increases in light of the lower hog prices to come.

This fall's decision whether or not to slaughter some breeding stock will be a hard one. Hog prices probably would be weaker in the short run, but a smaller September-November pig crop this fall would mean higher hog prices next spring.

Before you firm up your final production plans, you'll probably want to wait until prospects for this year's crops are more certain.

This newsletter went to press just before the July Crop Production report, which provided the first reading on the 1979 corn crop, was issued. However, the June Acreage report indicated that farmers planted:

- 79.8 million acres of corn, almost the same as last year,

- 117 million acres to feed grains, 4 percent less than in 1978,
- a record 71.7 million acres to soybeans, up 12 percent.

With favorable growing conditions, prospective supplies of corn and protein supplement appear adequate. But strong demand here and abroad has pushed feed prices above 1978 levels.

Expansion To End

High feed prices coupled with sagging hog prices will end the hog industry's current expansion phase, even for large, capital-intensive units. Much of the industry's recent growth has come from these units.

Operators of these units likely will maintain output near capacity, trying to spread fixed costs and hired labor costs over a large number of hogs.

However, if yours is a mixed livestock-grain farm, particularly one

JUNE HOGS AND PIGS INVENTORY LARGEST SINCE 1971¹

	1977	1978	1979	1978 to 1979
	Thousand head			% change
Inventory:	54,460	55,110	64,890	+18
Breeding	8,688	8,844	10,373	+17
Market	45,772	46,266	54,517	+18
Weight groups				
Under 60 lbs.	21,558	20,884	25,127	+20
60-119 lbs.	10,892	11,280	13,157	+17
120-179 lbs.	7,679	7,992	9,182	+15
180+ lbs.	5,643	6,110	7,051	+15
Pig crops:				
Dec.-Feb.	18,532	18,716	21,906	+17
Mar.-May	24,428	23,625	28,666	+21
Dec.-May	42,960	42,341	50,572	+19
June-Aug.	22,240	22,801		
Sept.-Nov.	20,962	23,039		
June-Nov.	43,202	45,840	² 53,417	+17

¹14 selected States accounting for 85 percent of the total hog inventory. ² Intentions.

feeding only one or two batches of hogs a year, you may want to sell more of your corn this fall rather than feed it to hogs.

Nonetheless, as long as farmers expect receipts from hogs sold to exceed cash costs--that is to contribute something to fixed costs such as depreciation on buildings and equipment--they will continue to raise hogs.

If they can't cover all cash costs, they may decide to quit the business. For 1979, cash costs of production for all producers probably will average about \$36 to \$37 per hundredweight of hogs sold. Individual producers' expenses, of course, will vary considerably from those averages.

And it looks like 1980 cash costs may turn higher, judging by inflation generally and developments in feed grain markets.

Even so, most producers should be able to cover cash costs for the next 12 months, although they may not be able to cover all costs. But if you can earn anything toward your fixed costs, it's to your advantage to continue producing.

Thus, in the short run, not many producers will quit the hog business as prices fall and feed costs increase. Because of declining profit margins, however, actual farrowings during September-November may fall short of intentions.

Still, the year-to-year increase in September-November farrowings may top 10 percent. And slaughter during January-June 1980 may be 12-14 percent over first-half 1979. At that level, hog prices could range in the upper \$30's to low \$40's through midyear.

In view of prospective hog-feed price relationships, you may want to

shorten your feeding time. Heavier hogs gain weight less efficiently and at a higher cost than lighter ones. Also, marketing hogs at lighter weights would result in smaller pork production and stronger prices.

A Word to Feeder-Finishers

Do some careful budgeting before deciding to buy feeder pigs. Declining slaughter hog prices and rising feed costs will limit how much

HOG PRICES, COSTS, AND NET MARGINS

Year	Barrow & gilts 7 markets	Feed and Feeder	Break- even ¹	Net margins
\$ per cwt.				
1977				
Jan.	39.52	33.60	40.65	-1.13
Feb.	40.18	28.62	35.46	+4.72
Mar.	37.53	27.23	34.14	+3.39
Apr.	36.97	30.41	37.42	-.45
May	41.79	30.75	37.83	+3.96
June	43.86	34.91	42.43	+1.43
July	45.76	37.99	45.70	+0.06
Aug.	44.38	39.89	47.71	-3.33
Sept.	41.40	39.25	47.21	-5.81
Oct.	40.83	35.71	43.48	-2.65
Nov.	39.33	34.15	41.96	-2.63
Dec.	43.99	33.45	41.22	+2.77
1978				
Jan.	45.99	31.89	39.58	+6.41
Feb.	48.83	30.64	38.25	+10.58
Mar.	47.50	31.63	39.31	+8.19
Apr.	46.04	31.00	38.62	+7.42
May	49.17	33.44	41.32	+7.85
June	48.31	36.97	45.40	+2.91
July	46.78	41.37	50.09	-3.31
Aug.	48.77	43.88	52.71	-3.94
Sept.	50.00	43.58	52.26	-2.26
Oct.	52.23	39.60	48.01	+4.22
Nov.	48.36	38.71	47.12	+1.24
Dec.	49.57	40.35	49.02	+0.55
1979				
Jan.	52.13	40.85	49.63	+2.50
Feb.	54.42	41.04	49.79	+4.63
Mar.	49.38	39.56	48.27	+1.11
Apr.	45.04	38.58	47.23	-2.19
May	43.79	37.67	46.35	-2.56
June	² 40.29	42.60	52.09	-11.80
July		43.17	52.76	
Aug.		42.73	52.28	
Sept.		38.58	47.73	
Oct.		34.49	43.31	
Nov.				
Dec.				

¹ Selling price required to cover costs of feeding a 40-50 lb. feeder pig to 220 lb. slaughter hog in Corn Belt. ² Estimated.

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you can pay for feeders and still break even.

The table below will help you decide how much you can pay for 50-pound feeder pigs, given varying prices for feed and slaughter hogs. It shows that if you expect slaughter hogs to sell for \$40 per hundredweight and the price of corn to be \$2.50 per bushel, you could pay \$22 per head and still break even.

The table assumes that nonfeed costs

BREAK-EVEN FEEDER PIG PRICES ¹

Corn price	Market hogs, \$ per cwt.						
	30	35	40	45	50	55	60
Feeder pigs, \$ per head							
\$ per bu.							
1.75	9	20	31	42	53	64	75
2.00	6	17	28	39	50	61	72
2.25	3	14	25	36	47	58	69
2.50	-	11	22	33	44	55	66
2.75	-	9	20	31	42	53	64
3.00	-	6	17	28	39	50	61
3.25	-	3	14	25	36	47	58
3.50	-	-	11	22	33	44	55

¹Feeder pig prices consistent with break-even, all costs, given corn and market hog prices. Assumes protein and other costs at June 1979 levels. Includes \$5.37 in fixed costs.

for finishing feeder pigs are \$20 per head. These costs are for medicine, power, depreciation, transportation, labor and management, and other miscellaneous expenses.

You may be able to pay more than the table indicates if you know the feeder pigs are healthy.

Use your own expenses to adjust this table. For example, if your nonfeed costs are \$15 a head, you could pay \$5 more for a feeder pig than the table suggests.

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